

THE MSUNDUZI MUNICIPALITY

REPORT BY

CHIEF FINANCIAL OFFICER (ACTING)

TO

EXECUTIVE COMMITTEE/FULL COUNCIL

21 January 2011

2010/2011 MID - YEAR REVIEW / ADJUSTMENT BUDGET

1. PURPOSE OF REPORT

1.1 To request the Executive Committee to approve the mid-year review/ adjustment budget and be adopted by The Full Council.

2. BACKGROUND

2.1 In terms of Section 72 of the Municipal Financial Management Act must the Accounting Officer of the Municipality before 25 January of each year, table the adjustment budget for the Councils approval.

3. SITUATIONAL ANALYSIS

3.1 The additional amount for CAPEX and OPEX requested by the various departments amount to R154.4 million rand which will be financed by additional revenue and cost savings.

Bulk purchases and employment related cost are the main contributors in the mid year review of the 2010/2011 budget which represents an estimated amount of R162.0 million. However additional expenditure savings to the amount of R 184.1 million has been identified together a estimated additional sales in services of R113.5 million.

Due to these savings and additional sales together with the additional adjustments it is the estimated surplus **before statutory provisions** of in terms of accounting standards R135.4 million as at 30 June 2011. See table for more detail.

Annual forecast for the financial year is as follows;

Increase in Revenue

Electricity	R 75,6 million
Water	R 38,7 million
Sewerage	R 13,1 million
Property Rates	R 0,1 million
Refuse	(R 1,9 million)
Other	R 5,4 million
Revenue Foregone	(R 17,4 million)
Net surplus	<u>R 113,6 million</u>

Decrease in Expenditure

Increase in bulk purchases for electricity	R 70,0 million
Increase in bulk purchases for water	R 41,7 million
Increase in Employee related cost	R 50,5 million
Decrease in other expenditure	(R 27,3 million)
Decrease in Provision for doubtful debt	(R 123,8 million)
Decrease in Income Forgone	(R 17,4 million)
Decrease in lease charges	(R 15,5 million)
Net surplus on expenditure	<u>R 21,8 million</u>
Surplus before Statutory Provisions & CAPEX	<u>R 135,4 million</u>

A further amount of R21 million is required for capital expenditure which will be financed for the saving identified.

Taken into account the present cash flow and budget restrictions were the following criteria followed to ensure that there will be sufficient funds to cover the additional cost namely:

- Identifying of expenditure savings
- Recalculation of actual estimated services and rates revenue taken into the present collection rate
- By implementing the turn around strategic and credit control management to increase the payment rate of the municipal
- Introduction of Management accounting

Adjustments Budget 2010/2011 Financial Year

Additional requests from Business Units as per annexure 'A'

Electricity Revenue

Billed revenue exceeded budgeted revenue by 8%. The period covers the winter season where sales are high due to high volume in consumption. A Pitbull disconnection drive for illegal electricity connections is contributing to high sales for the period. The bulk purchases figures for the period were high due to winter tariff from ESKOM. However the winter tariff fell off and bulk purchases are expected to come down. The projected increase in revenue is an amount of R 75,6 million and additional Bulk purchases to be R70 million.

Water Revenue

The table attached shows that water revenue exceeded budget by 17%. The main reasons for the good performance are:

- The disconnection drive which is undergoing. Some clients who were illegally connected have paid and are now being billed regularly.
- Improved meter readings have resulted in large number of clients being billed correctly, however, a considerable portion of this relates to prior years. This will be adjusted accordingly to account for the prior year allocation.

The projected increase in revenue is an amount of R 39 million and the estimate bulk purchase increase is estimated at R 42 Million.

Sewerage Revenue

Sewerage revenue exceeded budget by 14% as result of higher volume of water consumption. The projected increase in revenue is an amount of R 13.1 million.

Property Rates Revenue

The property rates revenue remains the same for the rest of the financial year. The projected increase in revenue is an amount of R 0.1 million.

Refuse Revenue

Revenue for refuse is slighter lower than budget. The projected decrease in revenue is an amount of R 1.9 million.

Other Revenue

An amount of R 28 million for Land Sales will be recognized between the Third and Fourth Quarter of the financial year. The projected increase in revenue is an amount of R 5.4 million.

Operating Expenditure

The majority of expenditure was reduced during the budget process in order to produce a balanced budget as required by the Municipal Finance

Management Act. Nice to have items are not included in the budget. A surplus achieved in the second quarter will be used to cover for these reductions in expenditure incurred during the budget process. Introduction of cost containment by the PITT has yielded positive results to control expenditure unnecessary expenditure. Also included in the adjustment budget are service delivery items e.g grass cutting programme, maintenance of roads, provision has been made for the landfill sites legislative requirements etc.

Increase in Bulk Purchases

Projected shortfall on both electricity (R 70.0 million) and water (R 41.7 million) are covered in the adjustment budget. It must be noted that both revenue and expenditure for water and electricity actuals are above budget.

Increase in Employee Related Costs

Employee related costs actuals are above the budget released to date by R 50.5 million due to the reduction made during the budget process but this shortfall has been covered by a surplus generated.

General Expenses

Actual expenditure on the general expenses is below budget by R 27,3 million to year to date due to the introduction of cost containment exercise.

Lease Charges

The actual expenditure to date for the first six is below budget by R 15,5 million compare to the budget released.

Doubtful Debts Provision

We have reviewed the doubtful debts provision as at 31st December 2010, and concluded that the required amount in 2010/2011 budget should be R 116 million. This amount is based on the net movement in the debtors of R 38 million from the 1st July to 31st December 2010. Therefore R 123.8 million is now available for operational expenditure.

Capital Expenditure

The following urgent capital requirements has been requested that will also be financed from the expenditure savings and additional revenue identified together with external funding as follows:

Additional Revenue

1. Financial System	R 3 000 000
2. PayDay HR/Payroll-Leave Application & Attendance Register	R 190 000
3. New Crematoria	R 1 300 000
4. Intenda + AG's Report	R 1 400 000
5. Computers, Printers and LCD Television	R 47 000
6. Sobantu Pump Station	R 300 000
Total	R 6 237 000

External (DBSA)

1. Protected Structures	R 30 992 442
2. Transformers	R 26 381 300
3. N3/Chota Motala	R 20 000 000
4. Vehicles	R 15 000 000
5. Information Systems	R 10 000 000
Total	R102 373 742

4. LEGAL IMPLICATIONS (COMMENTS: EXECUTIVE MANAGER; LEGAL SERVICES AND LEGISLATIVE COMPLIANCE)

4.1 No legal implications

5. FINANCIAL IMPLICATIONS (COMMENTS: CHIEF FINANCIAL OFFICER)

5.1 All the financial implications are incorporated in the report as per situational analysis.

6. RECOMMENDATIONS

6.1 That the mid-year review/ adjustment budget be approved and adopted.

Generator of Report

S. Gwala

Executive: Budget and Treasury (Acting)

Strategic Executive/ Executive Manager

M.B. Sahibdeen

Chief Financial Officer (Acting)

Municipal Manager (Acting)

T. Maseko

Administrator

J. Mettler